

2005-07 Operating Budget

The Problem

Based on current forecasts, the state is looking at a budget hole of approximately \$1.5 billion. This projection assumes the state continues all current services, maintains a \$300 million reserve, and funds such policy items as collective bargaining, the I-732 Teachers' COLA, increased higher education enrollments, and enhanced funding of I-728 lower class sizes as mandated by statute.

While revenue is expected to grow about 6.7 percent next biennium (about \$1.55 billion), it is not enough. Several areas of the 2005-07 budget are expected to grow much faster. This new revenue will be swallowed by just a few items.

The Solution

Senate Republicans are committed to balancing the budget without resorting to damaging tax increases or draining state reserve funds. As our state and national economies continue to recover, now is NOT the time to take a step backwards by taxing working families and struggling businesses.

We faced a similar budget situation in 2003 – with a \$2.6 billion budget hole – and through SRC leadership, still managed to balance the budget, protect our most vulnerable citizens, and leave \$300 million in reserve.

Background

Increased compensation costs are projected to eat up virtually all of the state's new revenue. In addition, health care costs continue to grow at several times the rate of revenue. Other major items include the ramping up of funding to lower class size as mandated under I-728, increases in the population of K-12 and higher education students, and increases in the state's prison population.

Compensation: Pensions, Health Care Benefits, and Salary

The single largest dollar increase is due to projected higher compensation costs, which combined, will eat up the \$1.5 billion in new revenues. The costs come in three forms:

Pension Costs – \$615 million higher (from \$161 million to \$776 million)

In order to fully fund the state's pension systems, the state actuary is recommending the state's contributions increase by over 400 percent next biennium. This increase is due to the fact that current rates are at historic and unsustainable lows, and recent stock market returns have been lower than expected.

Health Benefits – \$371 million higher

Governor Locke recently negotiated to keep state employees' share of health care costs at 12 percent with the state paying the remaining cost. To keep state

worker health care costs at 12 percent will cost approximately \$371 million next biennium. By way of comparison, the Henry J. Kaiser Family Foundation did a national survey and found the average private-sector employee paid 28 percent of the cost for family coverage.

Salaries – Nearly \$500 million higher

Also during collective bargaining, Governor Locke negotiated salary increases of 3.2 percent and 1.6 percent for state workers over the next two years (\$200 million). Under Initiative 732, teachers are scheduled to receive a much smaller raise than negotiated by state employees – 1.1 percent and 1.4 percent (\$140 million).

Inflationary adjustments to payments to providers, such as doctors, health care specialists, and other human service providers will make up the rest (about \$150 million).

The above information takes care of the \$1.5 billion in new revenue, so how do we find ourselves in a \$1.5 billion budget hole?

Health Care Inflation – The current assumption is that health care inflation will grow at 11 percent per year. This is twice as fast as state revenue growth. To continue to pay for existing services, the current cost of health care inflation is expected to be in the neighborhood of \$400 million next biennium.

Initiative 728 – Initiative 728's funding for lower class sizes is scheduled to grow from \$254 to \$375 per pupil in the 2005-07 biennium. The cost of this increase is roughly \$230 million.

Maintenance Level Increases – Expected increases over the next two years in the K-12 student population, higher education enrollments, state inmates, and human services caseloads all require additional funds, well into the hundreds of millions of dollars.